

July 22, 2002



# Financial Management

Accounting and Reporting Processes  
at Defense Finance and Accounting  
Service San Antonio  
(D-2002-130)

**Office of the Inspector General  
of the  
Department of Defense**

CONSTITUTION OF THE  
UNITED STATES OF AMERICA

NO MONEY SHALL BE DRAWN FROM THE TREASURY, BUT IN CONSEQUENCE OF APPROPRIATIONS MADE BY LAW; AND A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY SHALL BE PUBLISHED FROM TIME TO TIME.

ARTICLE I, SECTION 9

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### **Acronyms**

DFAS	Defense Finance and Accounting Service
DFAS IN-SF	Defense Finance and Accounting Service Indianapolis (Sustaining Forces)
FMR	Financial Management Regulation
GLAC	General Ledger Account Code
SOP	Standard Operating Procedure
STANFINS	Standard Finance System
USGSGL	U.S. Government Standard General Ledger



INSPECTOR GENERAL  
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July 22, 2002

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on Accounting and Reporting Processes at Defense Finance and  
Accounting Service San Antonio (Report No. D-2002-130)

We are providing this report for information and use. This audit supports our annual audits of DoD financial statements required by the Chief Financial Officers Act of 1990, as amended. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Jack L. Armstrong at (317) 510-3846 (DSN 699-3846) (jarmstrong@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed on the inside back cover.

A handwritten signature in black ink, appearing to read "Thomas F. Gimble", is positioned above the printed name.

Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
for Auditing

# Office of the Inspector General of the Department of Defense

**Report No. D-2002-130**

(Project No. D2001FI-0178.002)

**July 22, 2002**

## **Accounting and Reporting Processes at Defense Finance and Accounting Service San Antonio**

### **Executive Summary**

**Who Should Read This Report and Why?** DoD and Army management responsible for policy and procedures relating to financial accounting and reporting and personnel preparing Army financial statements should read this report. The report identifies noncompliance with DoD requirements to properly support accounting adjustments made to general ledger data, and with U.S. Government Standard General Ledger requirements to correctly record Expended Appropriations.

**Background.** The Defense Finance and Accounting Service (DFAS) Indianapolis (Sustaining Forces) provides finance and accounting support to the Army and Other Defense Organizations. Support includes maintaining departmental accounting records and preparing financial statements and reports from financial information submitted by DoD field accounting sites and other sources. Financial data are generated and accumulated throughout the month by DFAS San Antonio for its Army and other DoD customers. The data are stored and processed in the Standard Finance System. The trial balance data are submitted on a monthly basis to DFAS Indianapolis (Sustaining Forces) for preparing financial statements and reports. Starting in FY 2002, DFAS Indianapolis (Sustaining Forces) will prepare both year-end and mid-year financial statements, and quarterly financial statements will start to be prepared in FY 2003.

**Results.** Of the 683 journal vouchers prepared in September 2001, 21 (totaling \$145.1 million) were reviewed. The 21 journal vouchers did not adequately support accounting adjustments made to general ledger data. Journal vouchers also were approved without adequate supervisory reviews. Unless the controls over the preparation and review of accounting adjustments are improved, DFAS Indianapolis (Sustaining Forces) will continue to receive unreliable financial information to prepare financial statements and reports. The Commander, DFAS San Antonio needs to revise the "Standard Operating Procedure for Journal Vouchers," in order to improve internal controls supporting and approving journal vouchers (finding A).

The DFAS San Antonio did not record \$2.67 billion in Expended Appropriations for the FY 2001 Army General Fund. DFAS Indianapolis (Sustaining Forces) used status of appropriations data in an attempt to populate the Expended Appropriations account and adjust the related equity accounts. However, the Expended Appropriations balance had \$222 million more using the status of appropriations data rather than DFAS San Antonio general ledger accounts. The Expended Appropriations and the related equity accounts are not recorded in accordance with the U.S. Government Standard General Ledger and the DoD Financial Management Regulation. Therefore, DFAS Indianapolis (Sustaining Forces) will continue to prepare financial statements and reports using unreliable data.

The Director, DFAS Indianapolis (Operating Forces) should initiate system changes to the Standard Finance System to allow for the proper processing of Expended Appropriations at the field accounting site level (finding B).

**Management Comments.** DFAS concurred with the recommendations in finding A to complete journal voucher checklists regarding journal voucher documentation and monthly progress reports, and stated that corrective actions had already been taken. DFAS agreed to develop a management plan, but stated that corrective actions would not be completed until September 1, 2002. DFAS also concurred with the audit recommendations in finding B regarding the Standard Finance System and stated that corrective actions were underway. We consider the comments to be fully responsive to the recommendations. See findings A and B for a discussion of the management comments. See the Management Comments section for the complete text of the comments.

# Table of Contents

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<b>Executive Summary</b>	i
<b>Background</b>	1
<b>Objective</b>	2
<b>Findings</b>	
A. Controls Over Accounting Adjustments	3
B. Standard Finance System	10
<b>Appendixes</b>	
A. Scope and Methodology	
Scope	15
Methodology	15
Management Control Program Review	16
Prior Coverage	17
B. Schedule of Journal Vouchers Reviewed	18
C. Report Distribution	20
<b>Management Comments</b>	
Defense Finance and Accounting Service	23

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## Background

**Chief Financial Officers Act of 1990.** Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, requires DoD to prepare annual audited financial statements. Office of Management and Budget Bulletin (the Bulletin) No. 01-09, “Form and Content of Agency Financial Statements,” September 25, 2001, provides guidance for preparing financial statements. Beginning FY 2002, the Bulletin requires Federal agencies to prepare unaudited interim financial statements for the six-month period ending March 31, 2002. Federal agencies will also be required to prepare quarterly financial statements starting FY 2003.

**Federal Financial Management Improvement Act of 1996.** Public Law 104-208, the “Federal Financial Management Improvement Act of 1996,” September 30, 1996, requires each Federal agency to implement and maintain financial management systems that comply with the:

- Federal financial management system requirements (Federal system requirements),
- Federal accounting standards, and
- U.S. Government Standard General Ledger (USGSQL) at the transaction level.

Federal system requirements call for audit trails that identify document input, changes, approval, and deletions by originator. In addition, Federal system requirements specify that all transactions are processed consistently to ensure the validity of the audit trails and transactions, regardless of their point of origin.

**Defense Finance and Accounting Service Indianapolis Responsibilities.** The Defense Finance and Accounting Service (DFAS) Indianapolis has two major centers, Sustaining Forces and Operating Forces. DFAS Indianapolis (Sustaining Forces), hereafter referred to as DFAS IN-SF, provides finance and accounting support to the Army and Other Defense Organizations. Support includes maintaining departmental accounting records, and preparing both financial statements and reports from general ledger and status of appropriations data. The Headquarters Accounting and Reporting System processes the data. DoD field accounting sites and other sources submit the financial information. DFAS Indianapolis (Operating Forces) is responsible for maintaining DFAS financial management systems.

**Defense Finance and Accounting Service San Antonio.** The Army Accounting Directorate at DFAS San Antonio is responsible for processing accounting data for its customers. The Consumer Funds Branch, Army Accounting Division, is responsible for recording accounting transactions and making adjustments to the trial balance data. The Analysis and Reports Branch, Army Accounting Division,



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is responsible for performing trial balance reconciliations to ensure the accuracy and integrity of the data. DFAS San Antonio generates and accumulates financial data throughout the month for the Army and Other Defense Organization General Funds. The data are stored and processed in the Standard Finance System (STANFINS), with DFAS San Antonio using a variety of applications to process the data. DFAS San Antonio sends monthly trial balance data on the fifth working day of the following month using the “HCA” system<sup>1</sup>. DFAS IN-SF receives the trial balances and processes them. This cycle is performed each month and one additional time for fiscal year-end data.

## **Objective**

The audit objective was to determine whether the accounting and reporting processes used by DFAS San Antonio to compile and submit financial information to DFAS IN-SF were reliable. Appendix A discusses the scope and methodology related to the audit objectives, the review of the management control program, and prior audit coverage.

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<sup>1</sup>HCA is the Field File Transfer System. It routes the incoming trial balance data to the Headquarters Accounting and Reporting System.

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## A. Controls Over Accounting Adjustments

Of the 683 journal vouchers prepared in September 2001, 21 (totaling \$145.1 million) were reviewed. The 21 journal vouchers did not adequately support accounting adjustments made to general ledger data. In addition, the journal vouchers were approved without adequate supervisory reviews. The deficiencies occurred because the Standard Operating Procedure (SOP) for preparing and approving journal vouchers was not complete. Also, DFAS San Antonio did not have an effective quality assurance program to ensure that established procedures for preparing and reviewing journal vouchers were followed. Unless the controls over the preparation and review of accounting adjustments are improved, DFAS IN-SF will continue to receive unreliable financial information to prepare financial statements and reports.

### Journal Voucher Guidance

DFAS uses journal vouchers to make adjustments to the accounting records. Journal vouchers must be properly prepared to ensure that an audit trail exists and that the adjustments were proper and accurate. Two primary types of journal vouchers are used: correcting and source-entry. Correcting journal vouchers adjusted accounting errors identified during the review process. Source-entry journal vouchers are accounting entries not otherwise recorded because of system limitations or timing differences. DoD has policy and procedures for making adjusting entries and preparing journal vouchers in DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (FMR). DFAS headquarters has also issued guidance in a series of memorandums addressing the preparation and the control of journal vouchers.

**DoD Guidance.** The FMR, volume 6A, "Reporting Policy and Procedures," February 1996, states that audit trails are necessary to maintain sufficient detail to permit tracing of transactions with a unique identity from the source to transmission to DFAS. The FMR requires the necessity to demonstrate the accuracy, completeness, and timeliness of a transaction and also requires DFAS to:

- identify the requirement for adjustments to financial data, and
- provide written support and justification for the adjustments.

Documentation related to the accounting entry must include the rationale and justification. The documentation also must include the detail numbers and dollar amounts of errors or conditions that are associated with the transactions or records that are proposed for adjustment; and the name and position of the approving official.

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**DFAS Guidance.** DFAS headquarters issued the memorandum “Journal Voucher Guidance,” October 28, 1999, that provided guidance on the use and preparation of journal vouchers; specifically, the requirements for documenting, reviewing for accuracy, and approving journal vouchers. On August 2, 2000, DFAS headquarters issued another memorandum on the same subject, providing guidance incorporating and emphasizing the requirements in the October 28, 1999, memorandum. The guidance states that all journal vouchers must be: adequately supported by documentation and explanations, reviewed and approved, and sequentially numbered and recorded in a log.

## **Operational Review Report**

DFAS Denver Internal Review performed an operational review of the DFAS San Antonio accounting operations in February 2001. The operational review reported that DFAS San Antonio had not implemented the internal control procedures contained in the August 2, 2000, DFAS journal voucher guidance. The operational review determined that DFAS San Antonio journal vouchers did not:

- maintain adequate supporting documentation or specific and detailed instructions regarding the content and location of the documents;
- contain a clear, concise explanation of the purpose and nature of the journal voucher; and
- identify the name, title, and office symbol of the preparer and approver.

In response to the operational review report, DFAS San Antonio management developed “Standard Operating Procedures for Journal Vouchers,” April 26, 2001. The SOP implemented the DFAS journal voucher guidance and added procedures unique to DFAS San Antonio for preparing, processing, controlling, and maintaining all journal vouchers.

## **Journal Voucher Preparation and Review**

Of the 683 journal vouchers prepared in September 2001, 21 (totaling \$145.1 million) were reviewed. We were unable to determine the value of the 683 journal vouchers because DFAS San Antonio did not record journal voucher values in the FY 2001 control logs. The 21 journal vouchers did not adequately support accounting adjustments by documentation and explanations made to general ledger data. In addition, the journal vouchers also were approved without adequate supervisory reviews. Appendix B provides additional information on the 21 journal vouchers and the deficiencies identified. DFAS San Antonio personnel had not effectively implemented the SOP procedures and controls.

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**Supporting Documentation.** DFAS San Antonio did not follow the SOP documentation requirements to prepare the 21 journal vouchers. Sufficient supporting documentation was not attached to the journal voucher to determine whether the adjustment was valid and accurately recorded. For example, DFAS San Antonio prepared 8 of the 21 journal vouchers (totaling \$17.8 million) for adjustments requested by DFAS San Antonio customers. The SOP states:

When the duly authorized official receives a customer-requested adjustment that is fully supported and complies with the DoD FMR, a correcting journal voucher must be prepared. Evidence to support this type of adjustment includes supporting documentation provided by the customer's duly authorized official. Evidence also includes any related analysis performed by the duly authorized official to ascertain that the adjustment is fully supported and complies with the DoD FMR. In addition, the journal voucher must document why the adjustment is required and how the duly authorized official determined that the entries included on the journal voucher are correct.

An example of a customer-requested journal voucher is a cost transfer. DFAS San Antonio personnel process cost transfer documents to move accounting data when requested by their customers. The customers used electronic mail, faxes, or telephone calls to request adjustments to the accounting records. However, when DFAS San Antonio personnel prepared a journal voucher for a requested adjustment, the journal voucher did not contain adequate documentation explaining why the adjustment was needed or made. Customer requested adjustments were not adequately supported because DFAS San Antonio personnel stated that the customer was more familiar with the purpose and use of the funds.

The lack of SOP enforcement caused the journal vouchers to be inadequately supported. However, the SOP procedures did not specifically address adjustments for cost transfers as recommended by the operational review. The operational review recommended that DFAS San Antonio should not process cost transfers without proper documentation and controls. Although the SOP incorporates the documentation requirements for customer requested journal vouchers, cost transfers were not addressed.

**Journal Voucher Explanations.** DFAS San Antonio did not provide adequate explanations for the need for making the accounting adjustments for 11 journal vouchers totaling \$128.0 million. The SOP established the requirement for explaining the purpose of the journal voucher and states that the purpose should be clear and concise. The SOP also requires that the journal voucher purpose include:

- all pertinent facts,
- the cause of the error,
- why the journal voucher is required, and
- the effect if the error is not corrected.

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The explanations on the journal vouchers reviewed were neither clear nor concise and did not include all the pertinent facts. Personnel in one accounting section created standard explanations instead of developing a specific explanation for each journal voucher. We discussed with DFAS San Antonio personnel the reasons for the inadequate explanations. DFAS San Antonio personnel stated that the explanations were created using terminology specific to their office. They were able to provide adequate explanations for the journal vouchers, but agreed that someone outside of the field accounting site would find the explanations difficult to understand. Inadequate explanations occurred because procedures in the SOP were not enforced.

**Journal Voucher Review and Approval.** DFAS San Antonio supervisory review and approval of journal vouchers was inadequate. The SOP requires that journal voucher reviewers must verify that every journal voucher has a valid audit trail and explanation. The reviewer is required to return an inadequately prepared journal voucher to the preparer with the explanation for rejection and the information needed to obtain an approval with the applicable authoritative guidance. The SOP requires that approving officials use a checklist in their review of the journal vouchers. Table 1 shows examples of checklist requirements.

**Table 1. Approval Checklist Requirements**

- A clear and concise explanation on the journal voucher.
- Adequate supporting documentation is attached to the journal voucher.
- The dollar amount is on the journal voucher and is equal to the dollar amount on the supporting documentation.
- The name, title, and office symbol of the preparer and approving official is on the journal voucher.
- The preparer and approver sign the journal voucher.

A review of the 21 journal vouchers found no evidence of this checklist used. DFAS San Antonio reviewers stated that they read the explanation on the journal voucher but did not use the review checklist. Reading the explanation on the journal voucher is not a sufficient review and ignores other internal controls, such as attaching proper supporting documentation and checking mathematical accuracy. By using the review checklist, reviewers would ensure that journal voucher preparers implemented the internal control procedures. The SOP should be revised to require that the review checklist be filed with the journal voucher as part of the supporting documentation.

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## Quality Assurance Program

DFAS San Antonio did not have an effective quality assurance program to ensure that the procedures in the DFAS guidance and SOP were enforced. DFAS San Antonio performed monthly journal voucher reviews to determine whether the journal vouchers were prepared properly. The monthly reviews served as a quality assurance program and identified repeated deficiencies in the preparation of the journal vouchers. However, DFAS San Antonio management did not have visibility over the actions needed to correct the internal control deficiencies identified by those monthly reviews.

**Monthly Journal Voucher Reviews.** The DFAS San Antonio Analysis and Reports Branch personnel performed monthly reviews for 20 percent of all journal vouchers prepared by the Consumer Funds Branch. The Analysis and Reports Branch used the journal voucher checklist in their monthly reviews and listed journal voucher errors, non-compliance with guidance, and missing vouchers in monthly review reports. The monthly reviews performed July through September 2001 identified reoccurring deficiencies, such as: inadequate journal voucher documentation and explanations, incorrect dollar amounts, and not citing detailed accounting lines on journal vouchers.

Although the monthly reviews were performed, the DFAS San Antonio Commander had not received the monthly progress reports. Instead, the journal voucher review reports were provided by electronic mail to the Chief of Army Accounting, to which the Analysis and Reports Branch Chief and the Consumer Funds Branch Chief are assigned. The deficiencies found were also discussed in a weekly staff meeting. However, the reporting process was not sufficient to resolve the journal voucher discrepancies, and the rate of journal voucher deficiencies increased. The percentage of non-compliant journal vouchers found increased from 21 percent in July 2001 to 28 percent in September 2001. The SOP did not require that the journal voucher review reports be provided to the Commander, DFAS San Antonio. Requiring monthly reporting to the Commander should provide increased oversight.

**Performance Plan.** DFAS San Antonio did not have a plan that established performance goals and objectives to measure the progress in reducing journal voucher deficiencies. As a result, DFAS San Antonio management could not measure the progress in correcting the journal voucher deficiencies. DFAS San Antonio should revise the SOP to require that a performance plan be prepared to include goals, milestones, and performance measures to correct journal voucher deficiencies. The SOP should also include monthly reporting to the Commander, DFAS San Antonio.

## Use of Block Tickets

DFAS San Antonio documented a number of adjustments to accounting data with Department of Army Form 3974, "Installation Block Ticket." Block tickets were used to record financial information from external sources, and identify the

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originator or processing location and type of data that interfaced with STANFINS. DFAS San Antonio used block tickets to process obligation and accrual transactions in STANFINS. DFAS San Antonio did not maintain a sequentially numbered central log for the block ticket adjustments made to accounting data. Therefore, the number of block tickets was not readily available. The block tickets had no written reason for the adjustments and did not state the effect of making the adjustment. In addition, DFAS San Antonio personnel did not review or approve block tickets. We did not review the block tickets for adequacy of the support documentation.

DFAS Indianapolis Regulation 37-1, "Finance and Accounting Policy Implementation," revised September 2000, provides guidance on block ticket usage. However, this block ticket guidance was not updated to reflect the procedures contained in DFAS headquarters and DoD guidance. The DFAS memorandum "Journal Voucher Guidance," October 28, 1999, states that journal vouchers are used for source-entry, accounting entries not otherwise recorded in the system. The FMR states that DFAS should adequately support any adjustment to the official accounting records. Support should contain sufficient detail to provide an audit trail to the source transaction that required the adjustment. We are not making a specific recommendation regarding block tickets because we did not perform a detailed review of the block ticket processes. However, block tickets should be subject to the same controls as journal vouchers.

## Summary

DFAS San Antonio did not have adequate controls over the preparation and review of journal vouchers because its SOP was inadequate and was not enforced. DFAS San Antonio did not properly document customer requested journal vouchers in order to maintain an adequate audit trail. Journal vouchers reviewed at DFAS San Antonio did not contain complete explanations as required by its SOP. DFAS San Antonio supervisors were not adequately reviewing journal vouchers; specifically, supervisors were not using the SOP review checklist and did not verify that journal vouchers were prepared properly. DFAS reviews performed at DFAS San Antonio have identified the same areas of non-compliance, but management has not made effective use of the results. Unless management controls are improved, DFAS IN-SF will continue to receive unreliable financial information to prepare DoD financial statements and reports. The need for reliable financial information becomes more important as DoD begins to prepare semiannual financial statements in FY 2002 and quarterly financial statements in FY 2003.

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## Recommendations, Management Comments, and Audit Response

**A. We recommend that the Commander, Defense Finance and Accounting Service San Antonio revise the “Standard Operating Procedure for Journal Vouchers,” to:**

**1. Include the documentation requirements for customer-requested journal vouchers for cost transfers.**

**2. Complete the review checklist for each journal voucher prepared and have the reviewer attach the review checklist to the journal voucher.**

**3. Require a management plan to ensure that journal voucher deficiencies are reduced.**

**4. Provide monthly progress reports to the Commander, Defense Finance and Accounting Service San Antonio, listing the conditions found by journal voucher reviews each month.**

**Management Comments.** The Director, DFAS concurred with Recommendations A.1, A.2, and A.4, and stated that corrective actions had been completed by April 12, 2002. The Director, DFAS also concurred with Recommendation A.3., but stated that corrective action would be completed by September 1, 2002. The Director, DFAS commented that the Commander, DFAS San Antonio had conducted a 100 percent review of the of the journal vouchers that we had questioned during our November 2001 visit. The Director, DFAS said that DFAS San Antonio personnel were able to explain the journal vouchers to the IG DoD satisfaction. Also, the Director, DFAS stated that IG DoD would include a statement in its audit report that all the journal vouchers had been corrected.

**Audit Response.** The Director, DFAS comments were fully responsive to all recommendations. No further comments on those recommendations are required. However, the Director, DFAS comments about our November 2001 visit were inaccurate. As discussed in “Journal Voucher Explanations,” DFAS San Antonio personnel were able to explain why they prepared the journal vouchers; however, not all the journal voucher deficiencies had been corrected, such as inadequate supporting documentation.



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## B. Standard Finance System

The DFAS San Antonio did not record \$2.67 billion in Expended Appropriations for FY 2001 Army General Fund. This occurred because STANFINS did not have the processing structure to record Expended Appropriations and related equity accounts in accordance with USGSGL and FMR. DFAS IN-SF used status of appropriations data in an attempt to populate the Expended Appropriations general ledger account and to adjust related general ledger equity accounts for its Army customers. However, the Expended Appropriations balance was \$222 million higher using status of appropriations data than if DFAS San Antonio general ledger data were used. Until Expended Appropriations and the related equity accounts are recorded in accordance with USGSGL and FMR, DFAS IN-SF will continue to prepare financial statements and reports using unreliable data.

### STANFINS and Accounting Requirements

STANFINS is a fully automated standard accounting system designed to provide accounting support at Army installations and general ledger control over all resources. STANFINS was intended to provide full accounting service to those installations performing missions financed primarily by consumer fund appropriations, such as Operations and Maintenance, Army. STANFINS is one of the accounting systems for the Army and Other Defense Organizations serviced by DFAS San Antonio. STANFINS does not meet Federal system requirements; therefore, until it becomes compliant or is replaced, its financial information will be unreliable. The DFAS Indianapolis (Operating Forces) has responsibility for maintaining STANFINS.

The STANFINS general ledger was the installation level version of the Army general ledger. The Army general ledger contains proprietary, nominal, and budgetary accounts set up in categories similar to USGSGL. The STANFINS general ledger was last updated in FY 1996; however, it has not been updated to reflect USGSGL. The Federal Financial Management Improvement Act of 1996 requires that Federal agencies use USGSGL. USGSGL and posting rules are contained in Treasury Financial Manual Transmittal Letter No. S2-01-01, October 27, 2000, and the DoD implementation guidance is contained in FMR.

**Accounting Requirements.** USGSGL uses three general ledger account codes (GLACs) in recording and accounting for appropriations received and expended. Expended Appropriations (GLAC 5700) is a revenue account and represents the amount of current period expenses and purchases of capital assets funded by appropriations. Unexpended Appropriations (GLAC 3100) is an equity account and represents the amounts appropriated by Congress that have not been expended. The Expended Appropriations balance increases and the Unexpended Appropriations balance decreases each time an expense is incurred or a capital purchase is made.

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Cumulative Results of Operations (GLAC 3310) is an equity account that represents the net difference from inception of the activity among expenses and losses, and financing sources. The Expended Appropriations balance should be closed into Cumulative Results of Operations at the end of each accounting period.

## Expended Appropriations Adjustments

STANFINS did not properly account for Army General Fund revenue and equity for the six fiscal stations serviced by DFAS San Antonio. Expended Appropriations of \$2.67 billion were not recorded in the general ledger. Therefore, offsetting entries of \$2.67 billion to Unexpended Appropriations were not made, and the year-end balance for Expended Appropriations was not closed to Cumulative Results of Operations. As a result, DFAS IN-SF had to make unsupported general ledger adjustments to populate Expended Appropriations and adjust the equity accounts because STANFINS did not record those transactions as required by FMR. The unsupported adjustments became part of the ending balance adjustments. The amounts of the unsupported adjustments were a result of DFAS IN-SF calculations made from status of appropriations data instead of trial balance data. Using status of appropriations data instead of general ledger data overstated Expended Appropriations by \$222 million for FY 2001. Status of appropriations data consists of budget data received from field accounting sites and disbursement and collection data received from disbursing stations.

**DFAS Procedures.** Upon receipt of financial data from supporting accounting field sites, DFAS IN-SF splits the data into two streams, general ledger data and status of appropriations data. DFAS IN-SF performed automated edit checks of the data. However, DFAS IN-SF did not reconcile general ledger data with status of appropriations data to determine whether the information received was accurate and proper. Instead, DFAS IN-SF attempted to compensate for the lack of reconciliations by forcing general ledger data to agree with status of appropriations data. This resulted in unsupported adjustments made to accounting data used to compile Army General Fund financial statements and reports. In effect, the GLACs 3310, 3100, and 5700 adjustments are calculated using only status of appropriations data. DFAS IN-SF has performed the ending balance adjustments since FY 1991 without an adequate effort to determine the cause of the discrepancies or to correct the problem.

**Prior Audit.** The Inspector General of the Department of Defense (IG DoD) performed a review of the ending balance adjustments because DFAS IN-SF lacked a sustained effort to correct the problem. IG DoD Report No. D-2002-073, "Ending Balance Adjustments to General Ledger Data for the Army General Fund," March 27, 2002, recommended that DFAS IN-SF record Expended Appropriations and establish control over equity at the departmental level. This is only a temporary solution until the causes for discrepancies between the general ledger data and status of appropriations data are corrected. In order to correct the discrepancies, the general ledger in the field level accounting systems, like STANFINS, have to be updated to reflect USGSGL. For FY 2001, DFAS IN-SF

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implemented the recommendation to record expended appropriations for the Army at the departmental level and as a result, reduced the ending balance adjustments by \$83.7 billion.

**Use of General Ledger Data.** The use of STANFINS trial balance data would provide a more accurate calculation of Unexpended Appropriations and Cumulative Results of Operations for Army General Fund general ledger data. Expended Appropriations was \$2.67 billion using general ledger data and \$2.89 billion using status of appropriations data. Therefore, using status of appropriations data overstated Expended Appropriations by \$222 million, or 8.3 percent, for FY 2001. We calculated the general ledger amount by deducting the amount in GLAC 1013 (Funds With Treasury), \$1.46 billion, from the amount in GLAC 3100, \$4.13 billion, as reported in the DFAS San Antonio trial balances. The difference between GLAC 1013 and GLAC 3100 equals GLAC 5700. The status of appropriations amount was calculated using data from the FY 2001 G0A<sup>2</sup> file and the calculation was based on a method used by DFAS IN-SF. Amounts were based on Record Data Types (the status of appropriations equivalent of a GLAC) for the six fiscal stations serviced by DFAS San Antonio. Using Record Data Types to calculate Expended Appropriations is only an approximation of GLAC 5700.

## STANFINS Processing Structure

STANFINS did not have the processing structure necessary to account for equity in accordance with USGSL and FMR. The STANFINS general ledger included GLAC 5700, but did not have automated accounting processes in place to post to this account.

**STANFINS Processing.** STANFINS uses a table-driven process with Type Action Codes that automatically records detailed transactions to the STANFINS general ledger. Type Action Codes are two-digit codes used to enter a transaction into STANFINS. Table 2 shows examples of the general ledger effects created by the use of three Type Action Codes affecting disbursements, accruals, and expenses.

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<sup>2</sup> The G0A is summary data at appropriation/limit/fiscal station number/allotment serial number level, of all status of appropriations data reported to DFAS IN-SF for a given accounting month, plus departmental adjustments.

**Table 2. Examples of Type Action Codes and General Ledger Effects**

Type Action Code	Transaction Description	Account Titles (GLAC)
21	Record Commitments, Obligations, Accruals, and Expenses	Any expense account (6000 series), any liability account (2000 series)
32	Record Accruals and Expenses	Any expense account (6000 series), any liability account (2000 series)
40	Record Normal Disbursements	Any liability account (2000 series), Funds Disbursed (1012.0)

STANFINS contains Type Action Codes that post disbursements and expenses; however, the needed action to record Expended Appropriations and the effects in the equity accounts are not in STANFINS. For FY 2001, DFAS San Antonio had recorded a decrease to GLAC 3100 of only \$22,800 when the amount of the decrease should have been \$2.67 billion. Updating the general ledger and modifying the Type Action Code structure to comply with FMR requirements for the accounting of Expended Appropriations would allow for a more accurate reporting at the field accounting site level. Those actions would also reduce the need for DFAS IN-SF ending balance adjustments to the Army General Fund and would provide a more accurate balance in Cumulative Results of Operations at the departmental level at fiscal year-end.

**STANFINS Updates.** Because STANFINS is a legacy system, major changes usually are not made unless they impact the mission. However, the STANFINS Business Manager is able to make changes to those aspects of the system that are table-driven and do not cause the logic or use of that table to change in the system. Table-driven actions include the updating of the general ledger and the amendment of the Type Action Codes. Amending the post-closing routine would require changes to the internal program language, which would require a System Change Request. DFAS Indianapolis (Operating Forces) has made such changes in the past. DFAS Indianapolis (Operating Forces) should initiate updates to STANFINS to include:

- identifying Type Action Codes relating to expenses incurred and capital purchases and then amending the appropriate Type Action Codes to post the correct entries to Expended Appropriations and Unexpended Appropriations, and
- amending the post-closing trial balance closing routines to close the balance of Expended Appropriations into Cumulative Results of Operations prior to submitting the post-closing trial balances to DFAS IN-SF.

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## Conclusion

Although the audit only looked at STANFINS processing at DFAS San Antonio, STANFINS provides installation-level accounting support for the Army and other DoD Components for some transactions. However, STANFINS does not have the processing structure in place to properly account for Expended Appropriations and related equity accounts. Proper accounting would provide a more accurate accounting of Unexpended Appropriations and Cumulative Results of Operations at the Army installation and departmental levels and also for Other Defense Organizations. Proper accounting would also eliminate the need for DFAS IN-SF to perform the calculated adjustments using status of appropriations data. Until Expended Appropriations and the related equity accounts are recorded in accordance with USGSL and FMR, DFAS IN-SF will continue to prepare financial statements and reports using unreliable data.

## Recommendations and Management Comments

**B. We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Operating Forces) initiate table-driven changes to the Standard Finance System. Specifically:**

**1. Identify the Standard Finance System Type Action Codes relating to expenses incurred and capital purchases, and then amend the appropriate Type Action Codes to post the correct entries to Expended Appropriations and Unexpended Appropriations.**

**2. Amend the post-closing trial balance closing routines to close the balance of Expended Appropriations into Cumulative Results of Operations prior to submitting the post-closing trial balances to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces).**

**Management Comments.** The Director, DFAS concurred with the recommendations, stating that testing had been completed on the proposed corrective actions, that corrective software is to be released, and that a system change request regarding amendments to the year-end process had been prepared and is being analyzed. The estimated completion date for the corrective actions is October 2002. Management comments were responsive and no further comments are required on Recommendations B.1. and B.2.

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## Appendix A. Scope and Methodology

### Scope

**Work Performed.** The primary purpose of this review was to determine whether the financial information prepared by DFAS San Antonio was reliable. We reviewed the DFAS San Antonio controls over the accounting and reporting of financial information submitted to DFAS IN-SF. We specifically reviewed the actions taken by DFAS San Antonio to correct deficiencies previously identified over the preparation and review of accounting adjustments. DFAS San Antonio prepared 9,862 journal vouchers for adjustments made to Army and Other Defense Organization accounting data in FY 2001. In addition, we reviewed the equity account balances in STANFINS and the processes used to record FY 2001 equity transactions.

**Limitations to Scope.** We could not determine the total number of adjustments made to the accounting data. The number of journal vouchers only accounted for part of the adjustments made to the accounting data. DFAS San Antonio did not maintain a sequentially numbered central log for the block ticket adjustments made to accounting data. Therefore, the number of block tickets used was not readily determined.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

### Methodology

We reviewed the DFAS San Antonio financial reporting processes, to include the applications used and the policies and procedures needed in the preparation of financial information. We performed an assessment of the processes used by DFAS San Antonio to prepare accounting adjustments and general ledger trial balances. The assessment determined whether they were in compliance with applicable DoD guidance and Federal system requirements. We reviewed the adequacy of the processes for compliance with the Federal Financial Management Improvement Act of 1996, FMR and DFAS guidance issued October 28, 1999, and August 2, 2000. In addition, we conducted interviews with personnel at DFAS San Antonio, DFAS Denver, DFAS IN-SF, DFAS Indianapolis (Operating Forces), and DFAS headquarters.

**Accounting Adjustments.** We reviewed the process and system that DFAS San Antonio used to make adjustments to Army and Other Defense Organization General Funds accounting data. Our approach was to evaluate the corrective actions taken by DFAS San Antonio to correct deficiencies identified by the DFAS Denver Internal Review. The DFAS Denver Internal Review performed an operational review of DFAS San Antonio accounting operations in

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February 2001. The operational review reported that DFAS San Antonio had not implemented the internal control procedures contained in the August 2, 2000, DFAS headquarters journal voucher guidance. We reviewed the DFAS San Antonio reports on monthly journal voucher reviews for July through September 2001.

In addition, of the 683 journal vouchers prepared in September 2001, 21 (totaling \$145.1 million) we judgmentally selected and reviewed. We were unable to determine the value of the 683 journal vouchers because DFAS San Antonio did not record journal voucher values in the FY 2001 control logs. We selected 1 journal voucher for a customer-requested adjustment, 11 journal vouchers to correct problem disbursements, and 7 journal vouchers containing both of those reasons. In addition, we selected one journal voucher for \$122.1 million because of the magnitude of the adjustment and one journal voucher because it was posting data from one source to STANFINS. We reviewed journal voucher control logs, journal vouchers and attached documentation, and performed a limited review of internal controls over block tickets.

**General Ledger Trial Balance.** We reviewed STANFINS general ledger trial balances. We reviewed the reporting of FY 2001 Army General Fund equity in the general ledger trial balances.

**Use of Computer-Processed Data.** To achieve the audit objective, we relied on computer-processed data in the FY 2001 DFAS IN-SF database "G0A." We tested the data and determined that they were complete but not subject to adequate controls. However, when the data are reviewed in context with other transaction files, we believe that the opinions, conclusions, and recommendations in this report are valid.

We also used STANFINS trial balance data that affected equity accounts during the audit. We did not test the data to determine completeness or whether the data were subject to an adequate level of control. As discussed in finding B, we identified errors in the accounting for Army General Fund equity. Although we were unable to form an opinion on the overall accuracy and completeness of the STANFINS data, it did not affect our audit conclusions regarding the accounting for equity.

**Audit Dates and Standards.** We performed this audit from August 2001 through January 2002 in accordance with generally accepted government auditing standards.

**Contacts during the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available upon request.

## **Management Control Program Review**

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive

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system of management controls that provides a reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We evaluated management controls over the DFAS San Antonio processes and procedures for journal voucher preparation and recording of equity accounts in STANFINS. We also evaluated the adequacy of management's self-evaluation over those controls.

**Adequacy of Management Controls.** A material management control weakness, as defined by DoD Directive 5010.38, existed in the DFAS San Antonio procedures for preparing and reviewing journal vouchers and recording of equity accounts. Management controls at the DFAS San Antonio were not adequate to ensure the reliability of data produced by STANFINS. The recommendations, if implemented, will improve controls over the preparation and review of journal vouchers, and the recording of equity accounts. A copy of the report will be provided to the senior official responsible for management controls at DFAS San Antonio and DFAS Indianapolis (Operating Forces).

**Adequacy of Management's Self-Evaluation.** The DFAS FY 2001 Annual Statement of Assurance identified System and Accounting Operations at DFAS San Antonio as a material weakness. The FY 2001 Annual Statement of Assurance stated that DFAS San Antonio had not implemented the DFAS policy on journal voucher preparation. The DFAS Denver Internal Review staff reviewed and verified that part of the material weakness over journal voucher preparation had been corrected, but determined that material weaknesses still existed.

DFAS reported the general ledger and financial reporting as a material weakness citing that the Financial Management Improvement Plan addressed system problems and solutions. Management reported the lack of adequate financial management systems as a management control deficiency and as an impediment to an audit opinion in the DoD Financial Management Improvement Plan. The DoD Financial Management Improvement Plan identified STANFINS as a legacy system and it will be consolidated into the Defense Joint Accounting System in FY 2005.

## Prior Coverage

The General Accounting Office and the IG DoD have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>, and IG DoD reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>.



## Appendix B. Schedule of Journal Vouchers Reviewed

The table shows the 21 journal vouchers that were reviewed and were all prepared in September 2001 by DFAS San Antonio personnel.

Journal Vouchers Reviewed						
Journal Voucher Number	Date Prepared	Date Reviewed	Amount	Deficiencies Found		Completed Review Checklist
				Supporting Documentation	Explanations	
JV1090012	9/7/2001	Omitted	\$ 350,915.01	Inadequate Support	Adequate	No
JV1090013	9/7/2001	Omitted	149,524.46	Inadequate Support	Inadequate explanation from customer	No
JV1090017	9/10/2001	Omitted	396,327.19	Inadequate Support	Inadequate explanation	No
JV1090019	9/10/2001	Omitted	433,576.86	Inadequate Customer Support	Inadequate explanation from customer	No
JV1090034	9/14/2001	Omitted	26,320.80	Inadequate Support	Adequate	No
JV1090038	9/14/2001	Omitted	292,380.21	Inadequate Customer Support	Inadequate explanation.	No
JV1090044	9/17/2001	Omitted	477,877.52	Inadequate Customer Support	Inadequate explanation from customer	No
JV1090045	9/17/2001	Omitted	115,978.32	Inadequate Support	Adequate	No
JV1090059	9/19/2001	Omitted	31,256.43	Inadequate Support	Adequate	No
JV1090071	9/21/2001	Omitted	6,799.87	Inadequate Support	Adequate	No
JV1090073	9/22/2001	Omitted	45,770.18	Inadequate Support	Adequate	No
JV1090088	9/26/2001	Omitted	5,354,524.56	Inadequate Customer Support	Adequate	No
JV1090091	9/27/2001	Omitted	11,091,624.68	Inadequate Customer Support	Adequate	No
(Continued on next page)						

Journal Vouchers Reviewed						
Journal Voucher Number	Date Prepared	Date Reviewed	Amount	Deficiencies Found		Completed Review Checklist
				Supporting Documentation	Explanations	
JV1090111	9/30/2001	Omitted	\$ 52,897.32	Inadequate Customer Support	Adequate	No
JV1090115*	9/30/2001	Omitted	29,001.11	Inadequate Support	Adequate	No
JV1090020	9/7/2001	Omitted	987,916.82	Inadequate Support	Inadequate explanation	No
JV1090048	9/12/2001	Omitted	774,244.24	Inadequate Customer Support	Inadequate explanation from customer	No
JV1090052	9/12/2001	Omitted	890,422.08	Inadequate Support	Inadequate explanation	No
JV1090064	9/13/2001	Omitted	797,748.36	Inadequate Customer Support	Inadequate explanation	No
JV1090093	9/17/2001	Omitted	716,195.55	Inadequate Support	Inadequate explanation	No
JV1090115*	9/20/2001	Omitted	122,110,397.10	Inadequate Support	Explanation does not match corresponding line items	No
Total			\$145,131,698.67			
* Journal vouchers are not duplicates because DFAS San Antonio manages five STANFINS databases and tracks journal vouchers by each of the STANFINS database.						

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Indianapolis (Sustaining Forces)  
Director, Defense Finance and Accounting Service Indianapolis (Operating Forces)

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform



# Defense Finance and Accounting Service Comments



DFAS-DAS

## DEFENSE FINANCE AND ACCOUNTING SERVICE

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JUN 18 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Audit Report on Accounting and Reporting Processes at Defense Finance and  
Accounting Service San Antonio (Project No. D2001FI-0178.0002)

Our response to the subject audit is attached. The point of contact is Ms. Heather Wilson,  
(703) 607-0750 or DSN 327-0750.

  
Robert P. McNamara  
Director, Accounting

Attachment:  
As stated

cc:  
DFAS-DDI  
DFAS-AAIP/DE  
DFAS-AHDA/IS  
DoDIG

**DFAS Comments on Audit Report on Accounting and Reporting Processes at Defense  
Finance and Accounting Service San Antonio (Project No. D2001FI-0178.002)**

**Responses to Recommendations.**

**Recommendation A1.** We recommend that the Commander, Defense Finance and Accounting Service San Antonio, revise the "Standard Operating Procedure for Journal Vouchers," to include the documentation requirements for customer-requested journal vouchers for cost transfers.

**Management Comments.** Concur. The standard operation procedure (SOP) was updated effective April 12, 2002, to include the documentation requirements for customer-requested journal vouchers for cost transfers. The documentation requirement procedures for customer-requested journal vouchers for cost transfers were implemented immediately following the departure of the audit team. DFAS Denver will continue to ensure that internal controls are adequate.

**Completion Date.** April 12, 2002.

**Recommendation A2.** We recommend that the Commander, Defense Finance and Accounting Service San Antonio, revise the "Standard Operating Procedure for Journal Vouchers," to complete the review checklist for each journal voucher prepared and have the reviewer attach the review checklist to the journal voucher.

**Management Comments.** Concur. The SOP was updated effective April 12, 2002, to complete the review checklist for each journal voucher prepared and to have the reviewer attach the review checklist to the journal voucher. The documentation requirement procedures to complete the review checklist for each journal voucher and to have the reviewer attach the review checklist to the journal voucher were implemented immediately following the departure of the audit team. DFAS Denver will continue to ensure that internal controls are adequate.

**Completion Date.** April 12, 2002.

**Recommendation A3.** We recommend that the Commander, Defense Finance and Accounting Service San Antonio, revise the "Standard Operating Procedure for Journal Vouchers," to require a management plan to ensure that journal voucher deficiencies are reduced.

**Management Comments.** Concur. On November 7, 2001, a meeting was held with the Inspector General (IG) team; Mr. Ed Dickey, Chief of Army Accounting Division; and various members of the accounting staff. Mr. Dickey directed a 100 percent review of all vouchers inspected by the IG in order to clarify the results of the review. DFAS San Antonio accountants and a member of the IG team conducted the review. The IG team stated it was satisfied with the results of the review and that any and all corrections that were made were sufficient to comply with the SOP. The IG team agreed to include a statement in the final audit report that all vouchers were corrected before the IG team departed. The Reports and Analysis Branch, Army Accounting Division, will continue to conduct internal audits of journal vouchers with bi-weekly training sessions on the proper preparation and documentation until a 98 percent accuracy rate is maintained for 90 days. The SOP will be updated to incorporate the bi-weekly training and to continue to conduct internal audits of journal vouchers.

**Estimated Completion Date.** September 1, 2002.

**Recommendation A4.** We recommend that the Commander, Defense Finance and Accounting Service San Antonio, revise the "Standard Operating Procedure for Journal Vouchers," to provide monthly reports to the Commander, Defense Finance and Accounting Service San Antonio, listing the conditions found by the journal voucher reviews each month.

**Management Comments.** Concur. The SOP was updated effective April 12, 2002, to provide monthly reports to the Commander, Defense Finance and Accounting Service San Antonio, listing the conditions found by the journal voucher reviews each month. The monthly reporting procedures were implemented immediately following the departure of the audit team. DFAS Denver will continue to ensure that internal controls are adequate.

**Completion Date.** April 12, 2002.

**Recommendation B1.** We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Operating Forces), initiate table-driven changes to the Standard Finance System. Specifically, identify the Standard Finance System Type Action Codes relating to expenses incurred and capital purchases, and then amends the appropriate Type Action Codes to post the correct entries to Expended Appropriations and Unexpended Appropriations.

**Management Comments.** Concur. Testing was completed on the type action codes as recommended.

**Estimated Completion Date.** Awaiting completion of post-closing trial balance amendment to complete this recommendation.

**Recommendation B2.** We recommend that the Director, Defense Finance and Accounting Service Indianapolis (Operating Forces), initiate table-driven changes to the Standard Finance System. Specifically, amend the post-closing trial balance closing routines to close the balance of Expended Appropriations into Cumulative Results of Operations prior to submitting the post-closing trial balances to the Defense Finance and Accounting Service Indianapolis (Sustaining Forces).

**Management Comments.** Concur. Testing was completed on the daily postings as recommended. Final coordination for the release of corrective software is being performed. A systems change request written for the year-end process is being analyzed.

**Estimated Completion Date.** October 2002.



## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of Inspector General of the Department of Defense who contributed to this report are listed below.

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